

Sensex ↓ (-0.43%) 76190.46 **-329.92** | Nifty ↓ (-0.49%) 23092.20 **-113.15** | Nifty Midcap ↓ (-1.55%) 53262.95 **-835.90** | Nifty Smallcap ↓ (-2.76%) 8115.50 **-230.60** | **Heatmap**

Home / Markets / News / CBDT clarifies PPT application, grants relief to FPIs with grandfathering

CBDT clarifies PPT application, grants relief to FPIs with grandfathering

Tax authority says provision will be outside the purview of PPT in respective DTAA's



Illustration: Binay Sinha

Khushboo Tiwari | **Mumbai**

3 min read Last Updated : Jan 22 2025 | 11:02 PM IST

📄 🔗 **Connect with us** 📧 📱 📌

Listen to This Article

▶ 0:00 / 3:37 🔊 ⋮ **1x** ⌵

The Central Board of Direct Taxes (CBDT) has clarified its stance on Principal Purpose Test (PPT) regarding Double Taxation Avoidance Agreement (DTAA), stating that it will be applicable prospectively, allowing grandfathering of prior investments.

Last year, the amendment in the India–Mauritius tax treaty introduced PPT to prevent treaty abuse by taxpayers.

However, it had left room for interpretation on whether it would be applicable retrospectively to tax investments before April 2017 or if it would be applicable prospectively.

The January 21 circular by CBDT provides clarifications on such PPT. India has certain bilateral commitments in the form of grandfathering provisions with Cyprus, Mauritius, and Singapore.

“These commitments, as reflected in the bilaterally agreed object and purpose of such grandfathering provisions, are not intended to interact with the PPT provision. Therefore, it is clarified that the grandfathering provisions under such DTAA shall remain outside the purview of the PPT provision, being governed, instead, by the specific provisions in this regard of the respective DTAA itself,” the CBDT circular said.

MEASURING SHARE

Top 5 countries in terms of FPIs' assets under custody (AUC)

Country	AUC (₹ trillion)	
	Equity	Total
US	30	30.99
Singapore	5.3	7.29
Luxembourg	5.4	5.83
Ireland	4.24	4.49
Mauritius	3.17	3.76

Data as of December 2024
Source: NSDL

Also Read



Under PPT, taxpayers can avail the benefits under the agreement only when they can establish that the benefit is in accordance with the relevant provisions, including 'substance' requirements. Substance refers to the basic requirements mandated for the fund on employees, offices, turnover, expenses, to operate in a specific country.

PPT was a crucial element introduced since the Multilateral Convention to Implement Tax Treaty Related Provisions to Prevent Base Erosion and Profit Shifting (MLI) came into effect. In India, the MLI came into effect in October 2019.

"The circular establishes the primacy of the grandfathering article that features in some treaties (namely Cyprus, Mauritius and Singapore). Essentially the circular protects such treaty specific bilateral commitments and carves them out of the purview of the PPT provisions. This was a grey area when the new protocol was made public for the India-Mauritius treaty," said Rohinton Sidhwa, partner, Deloitte India.

While the PPT provisions with Mauritius are not yet notified, Sidhwa opined that with this clarification, the protocol may get notified and brought into effect in the coming financial year.

"The circular reflects the intent of the revenue to uphold the sanctity of grandfathered transactions under the treaties (which is in line with the object and purpose of introducing such grandfathering provisions, and which is the result of a bilateral agreement between the two sovereign governments)," said Arijit Ghosh, leader, International Tax at Nishith Desai Associates.

"While it is clarified that the PPT will not apply retrospectively to grandfathered transactions; they would nonetheless need to qualify other conditions required to avail treaty benefits," he added.

Singapore and Mauritius are among the top five countries in terms of FPIs' assets under custody (AUC) in India.

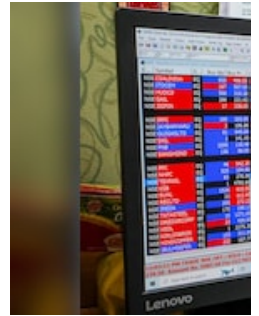
The total AUC for Singapore, which is second in the list, stands at Rs 7.29 trillion, while for Mauritius it is around Rs 3.76 trillion, as of December 2024. Mauritius is now placed fifth in countries with the highest AUC in India.



Sensex gains 566 points as IT stocks surge, AI optimism offsets tariff woes



India Inc investments rise 39% to Rs 32 trn in nine months: SBI Report



BNP Paribas sees equities, projects

Topics : FPI CBDT tax

Don't miss the most important news and views of the day. Get them on our Telegram channel

First Published: Jan 22 2025 | 7:24 PM IST

Read Comments (0)

Add Comment

Sponsored stories



Ellen DeGeneres Is Saying Goodbye to the U.S. —and Likel... Mansion Global



Recommended by Outbrain

Best Public Speaking Course for Children (Age 4-14) PlanetSpark

Explore News

Stock Market LIVE

Nitish Kumar's Withdraws BJP Support

Stocks to Watch Today

Market Today

India vs England LIVE

Latest News LIVE

Denta Water IPO

Budget 2025

IPO News

Business Standard at 50

HOT STOCKS

[Suzlon Energy Share Price](#) | [Adani Enterprises Share Price](#) | [Adani Power Share Price](#) | [IRFC Share Price](#) |
[Tata Motors Share Price](#) | [Tata Steel Share Price](#) | [Yes Bank Share Price](#) | [Infosys Share Price](#) | [SBI Share Price](#) |
[Reliance shares](#) |

TOP SECTIONS

[Latest News](#) | [Company News](#) | [Market News](#) | [India News](#) | [Politics News](#) | [Cricket News](#) | [Personal Finance](#) |
[Technology News](#) | [World News](#) | [Industry News](#) | [Education News](#) | [Opinion](#) | [Shows](#) | [Economy News](#) |
[Lifestyle News](#) | [Health News](#) |

[Today's Paper](#) | [About Us](#) | [T&C](#) | [Privacy Policy](#) | [Cookie Policy](#) | [Disclaimer](#) | [Investor Communication](#) |
[GST registration number List](#) | [Compliance](#) | [Contact Us](#) | [Advertise with Us](#) | [Sitemap](#) | [Subscribe](#) | [Careers](#) |
[BS Apps](#) |

KEY EVENTS

[Stock Companies List](#) | [Business Standard at 50](#) | [IPO News](#) | [EMI Calculator Tool](#) | [Delhi Elections 2024](#) |
[Budget 2025](#) | [BS Newsletter](#) | [Free Sudoku Puzzle](#) | [Free Crossword Puzzle](#) | [Income Tax Calculator Tool](#) |

Copyrights © 2025 Business Standard Private Ltd. All rights reserved

